Tips for Takeover Targets' Stockholders
Inside Those New Financial Supermarkets
Tallahassee's Go-Get-'Em B-School

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FORTUNE

PUTTING PAN AM BACK TOGETHER AGAIN

FORTUNE

Artist Nicholas Fasciano constructed the unglued Pan Am logo on the cover. Dan Kozan took the photograph. An article describing Pan Am's attempts to collect itself begins on page 42.

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ACKNOWLEDGMENTS

4—Helen Rowan. 8—Courtesy Prime Computer Inc. 11—Courtesy SmithKline. 37-40—Michael McGinn. 44—Karl Hartig. 57—Patricia Byrne. 58—Left row: Gary Gladstone, John Marmaras–Woodfin Camp, courtesy E.F. Hutton & Co. Center row: Gary Gladstone, John Marmaras, John Marmaras. Right row: Robert Phillips, John Marmaras, John Marmaras. Far right: Gary Gladstone. 65—Daniel Pelavin. 67—Courtesy PureCycle. 68—Courtesy De Lorean Motor Co. 80—Clockwise from top left: Bill Ray, Robert Mizono, nc, nc, nc, Robert Mizono; Larry Williams (center). 121—Christopher Springmann.

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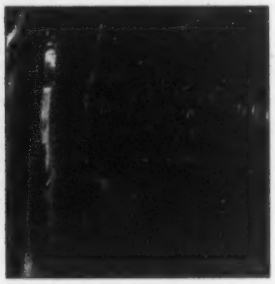

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TRANSFORMATIONS

The Fight for

by CAROL J. LOOMIS

The sight of a corporate chief executive testifying at a congressional hearing is far from unusual these days, but the four who appeared before the Senate Banking Committee one day this fall were an extraordinary gang to be sitting side by side. They were the heads of the nation's largest bank holding company, Citicorp; the largest insurer, Prudential; the largest securities broker, Merrill Lynch; and the largest travel-services company, American Express. The committee's chairman, Senator Jake Garn, had also invited the largest retailer, Sears Roebuck. But Sears begged off, pleading that it was in the middle of tender offers and therefore was not free to warble at a congressional hearing.

Garn had sponsored legislation to loosen the regulatory strings on banks and thrifts, and he wanted to assemble warm-bodied proof of the "increasing competition" that has been making life miserable for these institutions. The five witnesses he went after could provide plenty of evidence. Their companies are all big, complex organizations that reach into multiple corners of the vast and varied industry called "financial services." Diverse in their makeup, these five have one thing in common: they are fierce competitors for the savings dollars that once would have flowed tranquilly to the banks and thrifts.

One of the group, Citicorp, is both prey and predator. Like all banking companies, it is competitively fettered by regulations; it is barred, for example, from buying a full-service brokerage firm. But it has stretched its activities to the limit, while clamoring persistently for deregulation. Many small banks, in contrast, fear deregulation—and Citicorp, which they perceive to be an enterprise that would provide just about every financial service known to man if only it were allowed to.

The other four companies are nonbanks, the segment of the financial-services industry that has the business edge today. Merrill Lynch has been aggressively diversifying for years into such fields as real estate and insurance. Its competitive diadem at the moment, however—an item that has been giving the banks fits—is a brokerage product, the Cash Management Account. The other three companies are all new in the brokerage business. They made their entry this year, doing it by acquisition in a remarkable burst of speed.

Research associate: Elizabeth S. Silverman

Everything in one-third the time

In various ways, then, the five companies exemplify the turbulence shaking the financial-services world. One of the forces at work is the Cash Management Account. Another is the money-market funds, which last month held $175 billion, more than double their total a year ago. That is astounding growth, but developments in the financial-services industry these days regularly exceed expectations. The pace of change has led Irving Leveson, a Hudson Institute economist and expert on the industry, to frame Leveson's Law: "Everything happens in one-third the time."

That was certainly the case in this year's invasions of the securities-brokerage business, a phenomenon that has sharpened the question of where the big financial conglomerates are headed. The companies acquired were all major firms: Prudential got Bache, American Express got Shearson Loeb Rhoades, and Sears is in the process of getting Dean Witter. The transactions have been costly, made at prices ranging up to three times book value (what Amex paid for Shearson). Marveling at these prices in a recent speech, Lewis W. Bernard, a Morgan Stanley executive, speculated on the rationales behind the deals. Are these moves "a profound statement about the competitive environment," he asked, or are they "purely opportunistic"? The probable answer is some of both, with a few additional elements tossed in.

The opportunistic aspects surfaced at

Birk Beck

Why banks, brokers, and other contenders are turning themselves into financial supermarkets

Financial Turf

Bache. Early this year, the company was trying to escape the Belzbergs, a Canadian family that had acquired a sizable piece of Bache and appeared to be seeking control. Looking for a rescuer—a white knight—Bache's investment banker tried Prudential, which over the years had been slowly but purposefully moving toward its own version of "one-stop service." The concept, says Prudential's chairman, Robert A. Beck, had not embraced checking accounts, traditional savings deposits, or small loans. But Prudential wanted to enter the securities business and viewed the acquisition of a company specializing in mutual-fund sales as the likeliest route. The purchase of a full-service brokerage firm appears to have received little consideration, in part because Prudential did not see any possibility of a friendly acquisition—the only sort it would consider. Says Beck: "I guess we hadn't thought that somebody was ready to go."

Here, suddenly, was Bache, a major firm, supremely "ready to go." Prudential, ponderous (more than $60 billion in assets) and normally deliberate, struck the $375-million deal in just 13 days. It was, a Bache quipster said, a case of "a 900-pound gorilla going after a banana."

The class of the jungle

Across town in Lower Manhattan, Sanford I. Weill, chairman of Shearson Loeb Rhoades, pondered the Prudential-Bache deal and decided he had just glimpsed the future for bananas. He wanted to pick his gorilla. After some thought, he concluded that American Express, a company whose top executives Weill knew, was the class of the financial-services jungle. Approaching American Express, Weill found its chairman, James D. Robinson III, well disposed toward a brokerage acquisition. The merger, which delivered Shearson shareholders $930 million in American Express stock, was signed in mid-April, one month after Prudential swallowed Bache.

The third acquirer stormed out of the Midwest. Sears Roebuck had been saying for more than two years that it wanted to expand in the financial-services business, in which it was already well represented through insurance, real estate, and savings and loan operations. But Chairman Edward R. Telling had been intent on other matters: the afflictions of Sears' retailing business, a corporate reorganization, the installation of a new management team. He might have kept busy still longer, it may be supposed, had he not noticed that the bananas were going pretty fast.

Six weeks after the Shearson news, the Sears board convened for a special meeting and was treated to a long, detailed presentation on the options in the financial-services field. The first definitive move came in early September, when Sears announced that it would start a money-market fund. The real action popped in October, over four whirlwind days. On October 5, Sears agreed to acquire Coldwell Banker, a big real-estate broker, for $180 million in cash and stock. On October 8, it signed up Dean Witter for about $600 million, also in cash and stock. (Immediately after, no doubt spent by the effort, Ed Telling left on vacation.)

While each of the three acquirers had its own combination of motives, there is also a common theme. All three have been grappling with problems in their traditional businesses and presumably see the

Georgiana Sak

Robinson Wriston

Small banks and brokerage firms might fancy this group picture as a dart board. Lined up at a recent Senate hearing on bank deregulation are the chief executives of four financial-services giants: Roger E. Birk of Merrill Lynch, Robert A. Beck of Prudential, James D. Robinson III of American Express, and Walter B. Wriston of Citicorp. Commenting pointedly on the tendency of his three companions to poach on Citicorp's business, Wriston referred to the group as "all of us bankers, here together."

Letting his imagination run, a Merrill Lynch executive predicted the firm's money-market fund might grow to $500 million. The total recently: $36 billion.

brokerage industry, which has been prosperous lately, as an expanse of greener grass. American Express's traveler's checks and charge cards have met intensified competition, notably from Visa. Sales of life insurance, Prudential's main product, have suffered because of inflation. Sears has the most visible burden of the three, a retailing business fallen into disrepair. Sears' motivations just might resemble those of William S. Woodside, chairman of American Can, who explained recently why his company, a tin bender at heart, had moved to buy an insurance company, Associated Madison: "We got tired of bailing out this leaky boat and decided the smart thing to do was to go out and build a new boat."

Campaigning for regicide

The special attraction of the brokerage business these days is its capacity for meeting the desires of the saver, who has responded to inflation by hot pursuit of a higher return on his money. Brokers, mutual-fund management companies, and other sponsors have accommodated him through money-market funds, which have thrived because they offer both liquidity and a market rate of interest. Banks and thrifts, partly because of interest-rate ceilings imposed on them by Regulation Q, cannot match that combination, so they have been the major losers in the money-market commotion.

Legislation passed in 1980 requires the elimination of Reg Q by 1986, and permits bank regulators to kill it off more quickly if they see fit. Many big-city bankers, among them Citicorp Chairman Walter B. Wriston, have campaigned for immediate regicide. But many small banks, despite the assaults of the money-market funds, still hold large quantities of low-cost deposits and devoutly do not wish to see the interest ceilings on these raised. In some cases, their concern is solvency; in all cases, it is profits. The solvency worries are shared by the regulators, so Reg Q lives on. The banks and thrifts it supposedly protects are damned by the money-market funds if they don't pay more for deposits and damned by economics if they do. The one thing these institutions know for sure is that they detest the money-market funds.

Among the purveyors of the detestable are Dean Witter, Shearson, and Bache; their money-market funds hold about $25 billion in assets. In a league by itself is Merrill Lynch. When the company started its Ready Assets fund in 1975, an executive told Chairman Donald T. Regan (now Secretary of the Treasury) that the fund would probably break even "if we ever get to $100 million." The executive, Dakin B. Ferris, then let his imagination run riot: "We might even get to $500 million someday." Ferris will never make it as a forecaster: In November, Ready Assets and three other Merrill Lynch money-market funds totaled $36 billion.

One of these funds, the CMA Money Trust, is a creature of that high-riding, controversy-laden innovation, the Cash Management Account. Open to customers who put up at least $20,000 in cash or securities, a CMA is powerfully close to a bank account. (See "Merrill Lynch Quacks Like a Bank," FORTUNE, October 20, 1980.) A customer can write checks against his account and each month gets a bank-like statement reporting all his transactions. He may take out margin loans against the securities in his account. If he is instead blessed with cash, it will be swept automatically into the CMA Money Trust, there to earn market rates of interest. The CMA, introduced by Merrill Lynch in 1977 and only now becoming available in all 50 states, is enormously appealing to customers—the best account-getter ever to come along in the brokerage business. In November, heralding the achievement with a press release, Merrill Lynch hit the 500,000 mark in CMA accounts.

That is about 500,000 more than the rest of Wall Street can claim, since Merrill Lynch's competitors initially dismissed the CMA as unimportant and only belatedly began racing to catch up. Dean Witter, having built the elaborate computer programs required, just recently rolled out a CMA-type product. Shearson and Bache, well before they were acquired by American Express and Prudential, announced that they would get into the business as fast as possible. Their entrance is expected early in 1982.

Since its retailing operations soured, Sears Roebuck has tried increasingly to pass itself off as a financial conglomerate. Chairman Edward Telling's recent acquisitions should make that easier to do.

Michael Weinstein

The CMA quacks like a loser

Banks that envy Merrill Lynch's CMA business may find consolation in the thought that it is probably not profitable. This proposition may seem strange, since the CMA is a copious generator of revenues. They include account and management fees, interest earned on margin borrowings, commissions earned on trades generated in the accounts, and money that Merrill Lynch makes (or saves) from the use of customers' cash balances during their brief periods of floating. The CMA also creates side benefits. By its appeal it discourages customers from taking their business to discounters, and it chains account executives to the firm since they cannot expect to take CMA-happy customers with them if they leave.

But supplying the product chews up money, which goes for people, computer systems, and a variety of processing and statement costs. The costs quite probably exceed the revenues, a thought fortified by Merrill Lynch's reluctance to say straight out that the product makes money.

One Merrill Lynch officer displaying re-

continued

What They Get	American Express	Citicorp	Merrill Lynch	Prudential	Sears
	(All figures in millions of dollars)				
REVENUES	7,000	17,300	3,800	13,200	27,700
NET INCOME	510	420	200	not comparable	630
What They've Got					
Assets	23,700	121,700	15,700	67,500	32,700
Customers' deposits	5,700	74,300	700	—	2,300
Customers' credit balances	500	—	900	250	200
Money-market funds	10,700	—	31,000	4,000	9,000
Commercial loans	3,600	56,300	330	34,260	—
Consumer loans	1,000	17,400	3,000	3,520	4,250
What They Do					
Securities brokerage	✓		✓	✓	✓
Securities trading	✓	✓	✓	✓	✓
Cash-management services			✓		✓
Investment management	✓	✓	✓	✓	✓
Commodities brokerage	✓		✓	✓	✓
U.S. corporate underwriting	✓		✓	✓	✓
International corporate underwriting	✓	✓	✓	✓	✓
U.S. commercial banking		✓			
International commercial banking	✓	✓	✓		
Savings and loan operations					✓
Small-loan offices		✓			✓
Credit cards, charge cards	✓	✓			✓
Traveler's checks	✓	✓			
Foreign-exchange trading	✓	✓	✓	✓	✓
Leasing	✓	✓	✓	✓	
Data-processing services	✓	✓	✓		
Property and casualty insurance	✓			✓	✓
Life insurance, health insurance	✓		✓	✓	✓
Mortgage insurance					✓
Mortgage banking	✓	✓	✓		✓
Real-estate development				✓	✓
Commercial real-estate brokerage			✓		✓
Residential real-estate brokerage		✓	✓		✓
Executive-relocation services			✓		✓

The Score on the Big Five

In the sprawling financial-services industry, you can't tell who's what without a scorecard. The revenues and net-income figures at the top apply to the 12 months that ended last September. For all but one of the crowd, these figures include the results of companies acquired, or being acquired, in 1981. Sears' figures, for example, include Dean Witter and Coldwell Banker. The exception is Prudential, which does not consolidate the operations of subsidiaries, including Bache, its newly acquired brokerage. Prudential is exceptional in another way too: as a mutual company, it lacks a net-income figure; the closest thing it has to a profit, "net gain from operations," is not comparable to the profits of the other four companies.

For the rows of figures summing up "What They've Got," Prudential did supply FORTUNE with consolidated data. These rows reflect balance-sheet figures as of September 30; since then the money-market funds have ballooned some more. These funds, together with customers' deposits and credit balances, represent savings and other dollars entrusted to the five companies. American Express and Merrill Lynch get deposits through the foreign banks they own, Sears through savings and loan operations. Consumer loans include margin loans (estimated in most cases).

As the "What They Do" listing shows, the five companies are broadly in competition with each other but also have quite different profiles. Sears is the most ubiquitous of the five, earning check marks in 19 out of the 24 activities.

The Latest Six to Go

The faces are reprinted from an illustration in a May 22, 1978, FORTUNE article ("The Shakeout on Wall Street Isn't Over Yet"). The full original pictured the chief executives of the 25 largest brokerage firms. Signs have been added to indicate the six that have since been acquired. Loeb Rhoades and Blyth Eastman Dillon sold out to stronger competitors; the others got big prices this year from outsiders wanting a stake in the brokerage business. A new outsider stalking the Street is BankAmerica. The company said last month that it intends—bank regulators permitting—to acquire Charles Schwab Corp., the largest discount broker (but too small an outfit for FORTUNE's gallery of 25). Regulatory approval may be hard to get, since the acquisition of a brokerage firm by a banking company seems to collide with various federal prohibitions.

luctance is Chairman Roger E. Birk. Asked whether he regards the CMA as profitable, he replies: "I regard it as the most innovative and successful product on Wall Street." Well, yes, but is it profitable? He turns to how expensive the product has been to get off the ground. "I do not think we have enjoyed the bottom-line benefits yet." Then, perhaps thinking of the side effects, he amends the statement: "I think it actually contributes to the bottom line. Okay?" He adds a postscript, predicated on the notion that investors will one day forsake the money-market funds and return in droves to the equity markets. On that glorious day, the orchard of CMA accounts will presumably rain its fruit—commissions—on the firm. There, Birk says, will be "the real payoff."

Birk's equivocation would doubtless not surprise Robert Fomon, chairman of E.F. Hutton, a large retail broker that has not merged with anybody. Fomon says the CMA "is not an economic idea," but rather "something you provide customers because your competitors have it." Then why did Merrill Lynch start it? "Don't ask me," Fomon says mournfully. The CMA, it may be surmised, is rather like air conditioning in a store. Once one competitor gets it, the others have to go along. Hutton will loose its CMA clone after the first of the year.

Unprofitable or not, the CMA has powerfully impressed other companies in the financial-services industry. Money-market funds and the CMA together represent a colossal shift of shares in the competition for people's savings—away from banks into the hands of nonbanking companies. It is possible, therefore, to imagine the acquirers of brokerage firms as having acted with a large concept in mind, in which they perceive themselves to be maneuvering for position at a moment rare in business history, the actual restructuring of a major industry. Donald C. Waite III, who directs McKinsey & Co.'s consulting work for banks, leans to that construction of events. "I would like to think," he says, "that what we mainly have here is good, aggressive managers seeing real opportunities and moving fast to grab customers and gain the franchise."

The most visionary of the acquirers may well have been Jim Robinson of American Express. His thinking, he suggests, was overhauled by events in 1980, a year in which the money-market funds grew

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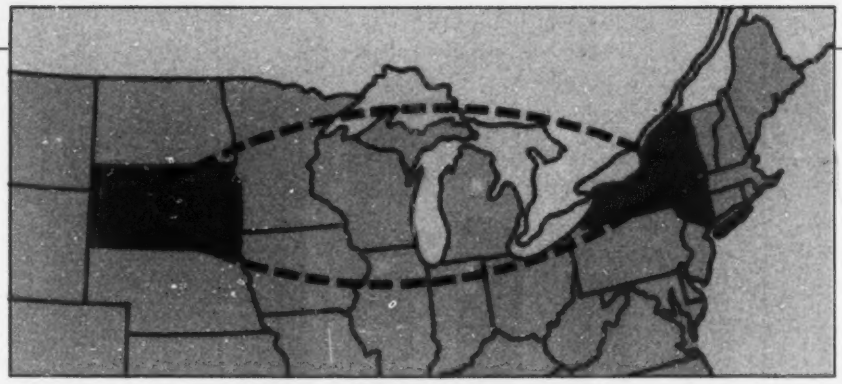


Citicorp's South Dakota Connection

Though the nation's banks remain ensnarled in regulations, state as well as federal, a lot of loosening has occurred over the last couple of years. Asked what deregulatory event of the recent past meant the most to Citicorp, Chairman Walter B. Wriston says without hesitation, "South Dakota." He refers to a move the company made last year to escape New York's usury ceilings on credit-card loans, then 18% on the first $500 and 12% on amounts above that. These ceilings, which applied to out-of-state as well as New York customers, seemed tolerable to Citicorp while its cost of money remained low; but when the cost rocketed in the late 1970s, the ceilings became onerous. Citicorp campaigned strenuously to get them lifted, but with no success. Piling up large losses on credit cards, the company announced in early 1980 that it was thinking of moving all card operations to a more accommodating state.

The one that leaped at the opportunity was South Dakota, which just a few days before had abolished most usury ceilings on consumer loans. But that step alone did not satisfy Citicorp's requirements. To bring all its credit-card customers under South Dakota's rules, the company needed to acquire or establish a national bank within that state. The impediment was the Douglas Amendment, a 1956 federal law stipulating that a bank holding company in one state cannot own a bank in another state unless the second state specifically permits such ownership. No state did—until South Dakota rose to the occasion in March 1980 and passed a law inviting Citicorp in.

New York, getting the message, subsequently raised many of its usury ceilings. Citicorp applauded and, lifting the interest rates it charged, began to enjoy better results on credit cards and other consumer lending. But, having made a commitment, Citicorp stuck by its newfound friend, South Dakota. The company has a real live bank there today, in Sioux Falls, and a force of 400 people, steadily increasing.

"Until all this happened," says Wriston, "the conventional wisdom was that banks were nailed down. We destroyed that myth." Think of it as a chapter in the drive toward interstate banking.

smartly and the CMA really took off. What had looked like evolution, Robinson says, began to resemble revolution. Up to that time, he had kept American Express out of businesses, such as a money-market fund, that competed with the company's customers for traveler's checks—the banks. But Robinson began to reconsider, perhaps telling himself that if the banks were going to lose their deposits to someone, it might as well be to American Express. When Sandy Weill, carrying a money-market fund and CMA plans as baggage, turned up to explore a merger, Robinson was ready. Had the proposition been advanced a year earlier, he says, "maybe the moon would not have been right."

Both Citicorp and Merrill Lynch are probably further along in their thinking about the revolution than any of those three acquirers of brokerages. The pair have looked like financial conglomerates for years and have been in the thick of the money-market surge, though in contrasting ways. Walter Wriston, campaigning for deregulation, loves to spotlight the differences, as he did at Senator Garn's hearing. "Merrill Lynch's money-market fund," he said, "exceeds Citibank's domestic deposits by $2 billion. We've been at it since 1812. They've been at it 24 months." Roger Birk, seated close by, passed up the opportunity to correct Wriston's statement. Merrill Lynch has in fact been at it more like 48 months, and its money-market funds (plural) exceed Citibank's domestic deposits by more than $10 billion. But Birk got his licks in later, deriding the accuracy of a document Wriston had presented to the committee.

Such scrapping is a bit of a put-on. Away from the debating scene, Wriston and Birk are on good terms. Their companies are frequently mentioned as candidates to merge with each other, if regulations change to permit it.

Their thinking, meantime, runs along similar lines in some matters, particularly what may happen if Congress lifts the prohibitions on interstate banking—or, more specifically, interstate deposit taking. Addressing this topic, the most emotional of all banking issues, Birk speaks of "the rhetoric of deregulation," as if he doubts much forward motion. He nevertheless feels that the acquirers of brokerage firms regard the branch offices of those firms as a distribution system that may ultimately be able to take deposits, thereby funding the merged companies' operations. He obviously thinks of his own branches the same way.

The bricks-and-mortar question

Merrill Lynch's branches might serve Citicorp also if the two companies were to merge. But Citicorp has a potential distribution system of its own: 170 consumer-finance offices in 27 states. Wriston talks about turning these offices into deposit-taking establishments if interstate banking arrives—"and it will." His plan: "We'll change the sign on those offices from Citicorp to Citibank and open the teller's window. That's a lot cheaper than buying somebody else for twice book."

All this talk about offices is somewhat ironic, since the popularity of money-market funds, many of them symbolized by an 800 telephone number, has raised the question of whether bricks and mortar are any longer essential to the deposit-taking function. The banks, heavy in buildings, recognize the seriousness of the question. They also feel that its importance has been increased by this year's big acquisitions, since the voice on the end of the money-market fund's line may now represent a major name like Sears or Prudential or American Express.

continued

Calling these three, and Merrill Lynch also, "potent and aggressive competitors," Hans H. Angermueller, senior executive vice president of Citicorp, states the problem as seen by many bankers. "It takes an awful lot to draw a person out of a bank, which has security-blanket aspects," Angermueller says. "But once he's been lured out and gotten used to dealing with another organization—perfectly credible, perfectly competent, and who gives the fellow what he wants—then I'm apprehensive about whether he's going to run back to the bank just because rates come down. So I think it's significant that we can't match these competitors. They're getting a piece of the market share that we're foreclosed from. I think—I hope anyway—that we can catch up with them, but we'll have to play catch-up ball." The overriding threat, he says, echoing McKinsey's Donald Waite, is that the competitors will capture "the customer base."

The competitors will unquestionably be trying, and if reports of the last few months are to be credited, they will hope to gain help from synergy. The possibilities are broad, or seem to be. American Express charge-card operations, for example, include extensive systems, located at the end of 800 telephone numbers, for quickly answering customers' questions about their bills. Today's plot is to hook Shearson's brokerage customers into the same system, which could handle their routine inquiries and transactions, such as cash transfers in and out of money-market funds. The Shearson salesmen would then be freer to concentrate on developing business. "That," a Shearson broker said recently, "would be absolutely wonderful. The time saved would be fantastic."

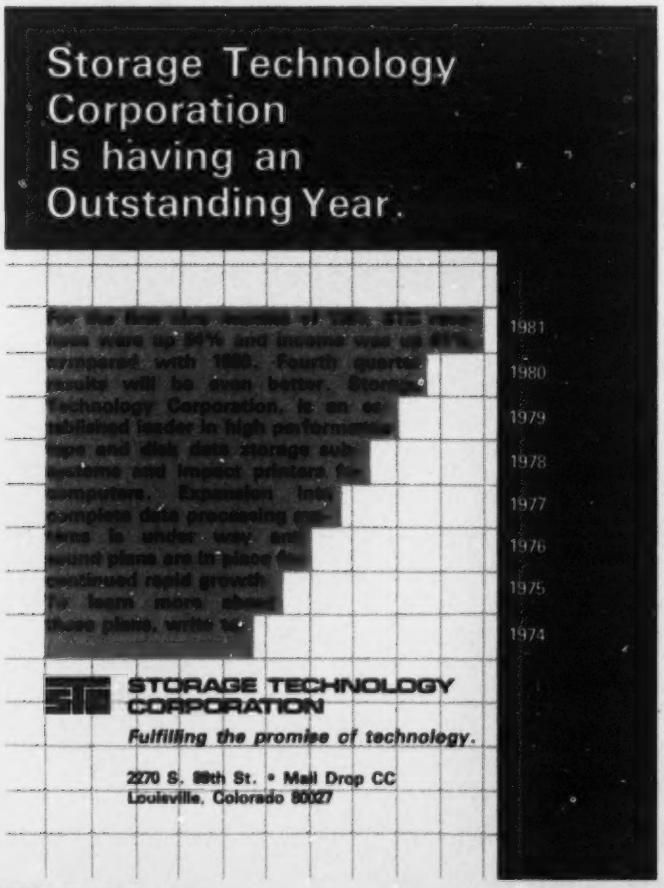
Haste could make "a real mess"

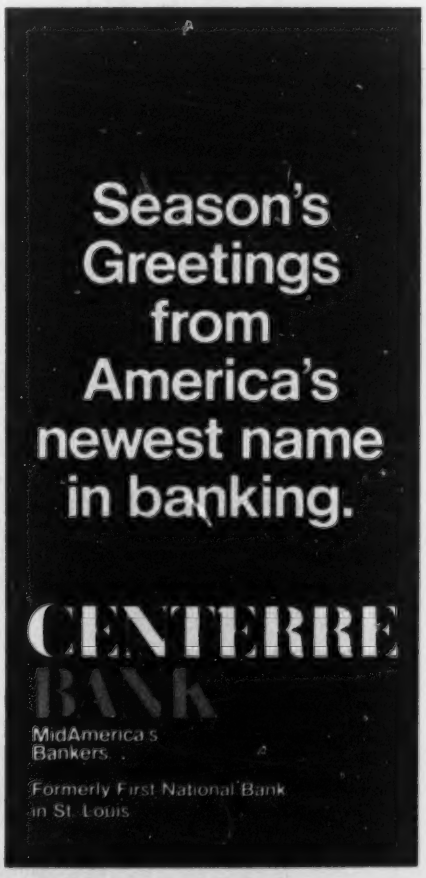
At Prudential, the synergy schemes include an innovative product. Bob Beck has long wanted to market a "family account," through which a customer would secure several different kinds of insurance (perhaps life, homeowners, auto) but pay only a single premium. Ideally, says Beck, such an arrangement would allow the customer to earn interest on credit balances in the account and alternatively to "go in the hole" if he didn't care to ante up for the premium. He might, say, be allowed to meet the bill by borrowing against the cash value in his life-insurance policy.

But Beck says the complexities of trying to effect such a plan within an insurance company add up to "a book," so Prudential has not gone far with the plan. Comes now the CMA—an interest payer, a device for going in the hole, and an idea that strikes Beck as a neat solution. He sees "big possibilities" in combining a CMA-type product and the family account.

He also stresses that it isn't going to happen overnight: too much backup work is required. The last thing you want to do, he says, is create "a real mess that has to be unsnarled later on." He speaks for a methodical company with long horizons.

The most frequently mentioned synergies have been those that might arise from "cross-selling"—the use of a distribution system for a marketing purpose other than that for which it is basically intended. Sears, for example, has multiple distribution systems: its stores, its credit-card list, Dean Witter's sales force, Allstate Insurance's sales force, and still others. Sears cross-sold (very effectively) when, many years ago, it installed Allstate salesmen in its stores, near the automobile-accessories department. There would be cross-selling if Dean Witter sold real-estate participa-

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tions packaged by other Sears divisions (which Dean Witter certainly intends to do) or if Sears' credit-card customers got Dean Witter promotional pieces in their monthly statements (which they certainly will). At American Express and Prudential there are similar opportunities.

The problem, however, is that cross-selling seldom seems to work as well as it theoretically might. Mail-order marketing has clicked for the money-market funds; it does not necessarily do so for other financial products. Sears' try at selling Allstate auto insurance through Sears catalogues flopped. Over the years, American Express has had only minimal success pushing Fireman's Fund insurance through mailings to Amex cardholders.

Keeping the kimono closed

Sticky questions may arise out of cross-selling opportunities. To what extent should Shearson salesmen have access to the names of American Express cardholders? This question is apparently under review even now. One Shearson executive said recently that cooperation between the two companies had been "great," with one exception: "They've been very cautious about opening up the kimono of their green-card holders. If Shearson people had their way, those poor helpless cardholders would be sitting there with their phones ringing off the hook. But American Express is sensitive to the relationship it has with the cardholders." They will no doubt be glad to hear that.

Salesmen are themselves a cross-selling uncertainty. Some securities brokers do well at selling supplementary products, such as insurance or tax shelters; most do not, and a lot won't even try. Neither do salesmen cheerfully share their customers. Bache salesmen would like to have access to Prudential's best insurance customers, but why should a Pru salesman turn his list over? Merrill Lynch says this kind of question rises from the "Whiffem" principle—"What's in it for me?" The company has had firsthand experience with it, having tried without much success to generate cooperation between its securities brokers and real-estate brokers.

Merrill Lynch has concluded that it is not smart to bank on synergy when making a deal. As Roger Birk puts it, "Synergism is something we don't pay a lot of money for." Asked whether he always believed in that policy, he replies: "I learned that."

A lot of additional learning should take place over the next few years. Some of it will involve technology, a matter of high priority for every major company in the industry. By the end of the decade, the use of home computers to make banking transactions should be common. Or perhaps, with Leveson's Law at work, the moment will arrive much sooner.

"Tide or Oxydol or what?"

Learning should also result from the embryonic nature of the financial-conglomerate business. A marketing executive familiar with the contours of the business says it reminds him of the detergent industry in 1950: "Everybody's got a detergent tower and doesn't know quite what to do with it. Do you make Tide or Oxydol or what?"

In a world torn by change, that kind of decision becomes intensely more difficult. Roger Birk surveys his new competition and allows that planning for the future has taken on "blood-and-guts significance." The tower keepers of the financial conglomerates appear to see the challenge. F

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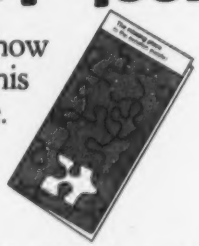

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